

Zagg INC  
Form 10QSB  
November 14, 2007

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-QSB**

(Mark one)

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2007, or

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File No. 000-52211

**ZAGG INCORPORATED**  
(Exact name of registrant as specified in its charter)

**Nevada**  
(State or other jurisdiction of  
incorporation or organization)

**20-2559624**  
(I.R.S. Employer  
Identification No.)

**3855 South 500 West, Suite J**  
**Salt Lake City, Utah 84115**  
(Address of principal executive offices with zip code)

**(801) 263-0699**  
(Registrant's telephone number, including area code)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: **Yes x No o.**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-25 of the Exchange Act).  
**Yes o No x**

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: **18,793,995 common shares as of November 9, 2007.**

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**ZAGG INCORPORATED  
FORM 10-QSB**

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**ZAGG INCORPORATED**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

	September 30, 2007	December 31, 2006
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 2,146,753	\$ 468,382
Accounts receivable, net	195,667	121,149
Inventories	328,925	102,522
Prepaid income taxes	41,043	44,361
Prepaid advertising	205,782	-
Prepaid expenses and other current assets	183,910	31,724
Deferred income tax assets	16,796	19,468
Due from employees	-	3,714
<b>Total current assets</b>	<b>3,118,876</b>	<b>791,320</b>
<b>Property and equipment, net</b>	<b>278,479</b>	<b>221,474</b>
<b>Deposits and other assets</b>	<b>30,712</b>	<b>12,119</b>
<b>Intangible assets, net</b>	<b>50,025</b>	<b>2,340</b>
<b>Total assets</b>	<b>\$ 3,478,092</b>	<b>\$ 1,027,253</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Convertible note payable	\$ -	\$ 250,000
Convertible note payable - officer	-	100,000
Accounts payable	316,659	246,691
Accrued liabilities	16,592	33,573
Accrued wages and wage related expenses	72,962	121,728
Deferred licensing revenue	94,953	86,801
Sales returns liability	16,599	32,000
<b>Total current liabilities</b>	<b>517,765</b>	<b>870,793</b>
<b>Long-term liabilities</b>		
Non-current deferred income tax liability, net	12,365	12,087
<b>Total liabilities</b>	<b>530,130</b>	<b>882,880</b>
<b>Stockholders' equity</b>		
Common stock, \$0.001 par value; 50,000,000 shares authorized; 18,793,995 and 10,175,000 shares issued and outstanding, respectively	18,790	10,175

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Additional paid-in capital	3,964,012	117,075
Cumulative translation adjustment	(54)	-
Retained (deficit) earnings	(1,034,786)	17,123
<b>Total stockholders' equity</b>	<b>2,947,962</b>	<b>144,373</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 3,478,092</b>	<b>\$ 1,027,253</b>

See accompanying notes to condensed consolidated financial statements.

**ZAGG INCORPORATED**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
<b>Net sales</b>	\$ 1,437,408	\$ 816,022	\$ 3,034,714	\$ 1,978,533
<b>Cost of sales</b>	299,027	193,153	689,858	537,375
<b>Gross profit</b>	1,138,381	622,869	2,344,856	1,441,158
<b>Operating expenses:</b>				
Salaries and related taxes	451,076	263,544	1,105,519	669,895
Compensation expense related to stock issuance	800,000	-	800,000	-
Consulting	-	-	38,500	73,750
Advertising and marketing	227,624	108,388	467,410	269,689
Legal and accounting	25,795	30,050	248,240	34,937
Other selling, general and administrative	383,851	186,631	729,693	377,894
<b>Total operating expenses</b>	1,888,346	588,613	3,389,362	1,426,165
<b>(Loss) income from operations</b>	(749,965)	34,256	(1,044,506)	14,993
<b>Other (expense) income:</b>				
Interest expense	(4,132)	(18,700)	(30,231)	(18,559)
Interest and other income	20,903	-	24,988	6,819
<b>Total other income (expense)</b>	16,771	(18,700)	(5,243)	(11,740)
<b>(Loss) income before benefit (provision) for income taxes</b>	(733,194)	15,556	(1,049,749)	3,253
<b>Income tax (expense) benefit</b>	(234)	-	(2,544)	13,464
<b>Net (loss) income</b>	(733,428)	15,556	(1,052,293)	16,717
<b>Basic and diluted net (loss) income per common share</b>	\$ (0.04)	\$ 0.00	\$ (0.07)	\$ 0.00
<b>Weighted average number of shares outstanding - basic and diluted</b>	17,631,495	10,000,000	16,131,123	10,033,333

See accompanying notes to condensed consolidated financial statements.



**ZAGG INCORPORATED**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
<b>Cash flows from operating activities</b>		
Net (loss) income	\$ (1,052,293)	\$ 16,717
Adjustments to reconcile net loss to net cash used in operating activities:		
Non-cash expense related to issuance of stock to employees	800,000	-
Depreciation and amortization	58,430	17,094
Deferred income tax (benefit) expense	2,950	(46,847)
Currency exchange (gain) loss	(54)	-
Changes in assets and liabilities		
Accounts receivable	(74,518)	31,579
Inventories	(226,403)	(66,595)
Due from employees	3,714	4,268
Prepaid income taxes	3,318	-
Prepaid advertising	(205,782)	-
Prepaid expenses and other current assets	(111,805)	51,491
Other assets	(18,593)	-
Accounts payable	21,280	148,689
Accrued liabilities	(1,288)	60,636
Accrued wages and wage related expenses	(48,766)	-
Deferred licensing revenues	8,152	-
Sales return liability	(15,401)	-
Net cash (used in) provided by operating activities	(857,059)	217,032
<b>Cash flows from investing activities</b>		
Payments for intangible assets	(48,764)	-
Purchase of property and equipment	(114,356)	(171,263)
Net cash used in investing activities	(163,120)	(171,263)
<b>Cash flows from financing activities</b>		
Repayments on equipment financing payable	-	(10,016)
Proceeds from issuance of common stock and warrants	2,570,750	-
Payments on debt	(250,000)	-
Proceeds from notes payable	200,000	-
Payments on convertible note payable - officer	(50,000)	-
Capital contribution	-	25,000
Proceeds from issuance of common stock	227,800	75,000
Net cash provided by financing activities	2,698,550	89,984
<b>Net increase in cash and cash equivalents</b>	<b>1,678,371</b>	<b>135,753</b>

<b>Cash and cash equivalents at beginning of the period</b>		468,382		25,661
<b>Cash and cash equivalents at end of the period</b>	\$	2,146,753	\$	161,414
<b>Supplemental disclosure of cash flow information</b>				
Cash paid during the period for interest	\$	16,736	\$	-
Cash paid during the period for income taxes	\$	-	\$	35,247
<b>Non-cash investing and financing activities</b>				
Property and equipment acquired for equipment financing payable	\$	-	\$	-

See accompanying notes to condensed consolidated financial statements.



**ZAGG INCORPORATED**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**  
**(Unaudited)**

**Supplemental schedule of noncash investing and financing activities**

**For the Nine Months Ended September 30, 2007:**

Issued 714,286 shares of common stock in conversion of convertible note payable.

Issued 147,853 shares of common stock in conversion of convertible note payable - officer and accrued interest.

Issued 800,000 shares of common stock to employees and consultants.

Issued warrants to purchase 100,000 shares of common stock in connection with note payable.

**For the Nine Months Ended September 30, 2006:**

Capital contribution of \$25,000.

See accompanying notes to condensed consolidated financial statements.

**ZAGG INCORPORATED**  
**Notes to Condensed Consolidated Financial Statements**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation** - The accompanying unaudited condensed consolidated financial statements of ZAGG Incorporated (the “Company” or “ZAGG”) have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the following disclosures are adequate to make the information presented not misleading. The Company suggests that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the Company’s 2006 Annual Report on Form 10-KSB.

These condensed financial statements reflect all adjustments (consisting only of normal recurring adjustments) that, in the opinion of management, are necessary to present fairly the financial position and results of operations of the Company for the periods presented.

Operating results for the nine months ended September 30, are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

**Nature of Operations** - ZAGG Incorporated was incorporated in the State of Utah on March 24, 2005 as Protective Solutions, Inc. On January 30, 2006, the Company amended its Articles of Incorporation and changed its name to ShieldZone Corporation. On February 8, 2007 we were acquired by an inactive publicly held company, Amerasia Khan Enterprises Ltd. in a transaction accounted for as a recapitalization of the Company. On March 1, 2007, we redomesticated our operating subsidiary by reincorporating it in the State of Nevada and on that same date we merged that subsidiary into Amerasia Khan Enterprises Ltd, the parent, who was the surviving entity. In connection with the merger we changed the name of Amerasia Khan Enterprises Ltd. to ZAGG Incorporated. The Company continues to operate the historical business of ShieldZone Corporation and may use the ShieldZone name as a trade name.

The Company has developed and sells, through the Internet and wholesale distribution channels, patent-pending protective shields under the name of the *invisibleSHIELD*<sup>™</sup> for electronic devices and other electronics accessories.

**Principles of Consolidation** - The condensed consolidated financial statements include the accounts of ZAGG Incorporated, and its wholly owned subsidiary ZAGG Europe Ltd. All significant intercompany transactions have been eliminated in consolidation.

**Business Condition** - For the three months ended September 30, 2007 and 2006, the Company generated revenues of \$1,437,408 and \$816,022, respectively and incurred a net loss of (\$733,428) and net income of \$15,556, respectively. For the nine months ended September 30, 2007 and 2006, the Company generated revenues of \$3,034,714 and \$1,978,533, respectively and incurred net losses of (\$1,052,293) and net income of \$16,717, respectively, had negative cash flow from operating activities of (\$857,059) for the nine months ended September 30, 2007 and positive cash flow from operating activities of \$217,032 for the nine months ended September 30, 2006. As of September 30, 2007, the Company had stockholders’ equity of \$2,947,962, an accumulated deficit of (\$1,034,786), working capital of \$2,601,111, accounts payable of \$316,659, deferred licensing revenue of \$94,953, accrued wages of \$72,962, sales returns liability of \$16,599 and accrued liabilities of \$16,592. Management believes that existing cash, along with cash generated from the collection of accounts receivable and the sale of products will be sufficient to meet the Company’s cash requirements during the next twelve months.

***Revenue Recognition***

The Company follows the guidance of the Securities and Exchange Commission’s Staff Accounting Bulletin 104 for revenue recognition. In general, the Company records revenue when persuasive evidence of an arrangement exists or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured. The Company’s revenue is derived from sales of its products to retailers, resellers and end consumers and from the sale of distributor license fees. For sales of product, the Company records revenue when the product is shipped, net of estimated returns and discounts. For license fees, the Company recognizes revenue on a prorated basis over the life of the distribution contract.

The Company follows the guidance of Emerging Issues Task Force (EITF) Issue 01-9 “Accounting for Consideration Given by a Vendor to a Customer” and (EITF) Issue 02-16 “Accounting by a Customer (Including a Reseller) for Certain Considerations Received from Vendors.” Accordingly, any incentives received from vendors are recognized as a reduction of the cost of products. Promotional products given to customers or potential customers are recognized as a cost of sales. Cash incentives provided to our customers are recognized as a reduction of the related sale price, and, therefore, are a reduction in sales.

### ***Reserve for Sales Returns and Warranty Liability***

The Company's return policy generally allows its end users and retailers to return purchased products for refund or in exchange for new products within 30 days of end user purchase. The Company estimates a reserve for sales returns and records that reserve amount as a reduction of sales and as a sales return reserve liability. At September 30, 2007 the sales return liability was \$16,599.

The Company generally provides the ultimate consumer a warranty with each product and accrues warranty expense at the time of the sale based on the Company's prior claims history. Actual warranty costs incurred are charged against the accrual when paid. During the three and nine months ended September 30, 2007 and 2006, warranty expense and the reserve for warranty liability, respectively, was not material.

### ***Shipping and Handling Costs***

Amounts invoiced to customers for shipping and handling are included in sales and were \$199,711 for the nine months ended September 30, 2007 and \$170,175 for the nine months ended September 30, 2006. Actual shipping and handling costs to ship products to our customers are included in cost of sales and were \$279,056 for the nine months ended September 30, 2007 and \$269,372 for the nine months ended September 30, 2006.

### ***Stock-based compensation***

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share Based Payment* ("SFAS No. 123R"). SFAS No. 123R establishes the financial accounting and reporting standards for stock-based compensation plans. As required by SFAS No. 123R, the Company recognizes the cost resulting from all stock-based payment transactions including shares issued under its stock option plans in the financial statements based upon the fair value of such equity instruments granted. As there were no common stock options granted or outstanding in 2007 or 2006, there was no financial effect to the Company upon implementation of SFAS No. 123R.

Prior to January 1, 2006, the Company accounted for stock-based employee compensation plans (including shares issued under its stock option plans) in accordance with APB Opinion No. 25 and followed the pro forma net income, pro forma income per share, and stock-based compensation plan disclosure requirements set forth in the Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123").

### ***Advertising***

General advertising is expensed as incurred. Advertising expenses for the nine months ended September 30, 2007 were \$462,371 and for the nine months ended September 30, 2006 were \$269,289. The Company capitalizes expenses related to its direct marketing campaign under the guidance of Statement of Position 93-7 *Reporting on Advertising Costs* ("SOP 93-7"). The company has capitalized \$190,787 as prepaid advertising related to the direct marketing campaign, these costs relate to the production of an infomercial spotlighting the *invisibleSHIELD* product line. The Company did some testing of the campaign during the third quarter of 2007 and determined that further modifications needed to be made to the infomercial. At September 30, 2007 these changes were underway and the Company plans to begin the direct marketing campaign during the fourth quarter of 2007, at which time the Company will begin to amortize these prepaid advertising costs as prescribed by SOP 93-7.

### ***Reclassifications***

Certain amounts in the 2006 financial statements have been reclassified to conform to the 2007 presentation.

***Recent accounting pronouncements***

In February, 2007, the FASB issued SFAS No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*" ("SFAS No. 159"). This Statement provides companies with an option to report selected measurement attributes for different assets and liabilities that can create artificial volatility in earnings. The Statement's objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS No. 159 is effective for the Company beginning January 1, 2009. The Company is currently evaluating the impact of this standard.

The Company has reviewed all other recently issued, but not yet adopted, accounting standards in order to determine their effects, if any, on its results of operation, financial position or cash flows. Based on that review, the Company believes that none of these pronouncements will have a significant material effect on its current or future earnings or operations.

**Net (Loss) Income Per Common Share**

Basic net (loss) income per share is computed by dividing net (loss) income by weighted average number of shares of common stock outstanding during each period. Diluted net (loss) income per share is computed by dividing net (loss) income by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during each period. As of September 30, 2007 and 2006, the Company did not have any dilutive securities.

The following is a reconciliation of the numerator and denominator used to calculate Basic and Diluted EPS for the three and nine months ended September 30, 2007 and 2006:

	<b>Net Loss</b>	<b>Weighted Average Shares</b>	<b>Per Share Amount</b>
Three months ended September 30, 2007:			
Basic EPS	\$ (733,428)	17,631,495	\$ (0.04)
Effect of common stock equivalents	—	—	
Diluted EPS	\$ (733,428)	17,631,495	\$ (0.04)
Three months ended September 30, 2006:			
Basic EPS	\$ 15,556	10,098,913	\$ 0.00
Effect of common stock equivalents	—	—	
Diluted EPS	\$ 15,556	10,098,913	\$ 0.00
	<b>Net Loss</b>	<b>Weighted Average Shares</b>	<b>Per Share Amount</b>
Nine months ended September 30, 2007:			
Basic EPS	\$ (1,052,293)	16,131,123	\$ (0.07)
Effect of common stock equivalents	—	—	
Diluted EPS	\$ (1,052,293)	16,131,123	\$ (0.07)
Nine months ended September 30, 2006:			
Basic EPS	\$ 16,717	10,033,000	\$ 0.00
Effect of common stock equivalents	—	—	
Diluted EPS	\$ 16,717	10,033,000	\$ 0.00

The calculation above for the three and nine months ended September 30, 2007, excludes the exercise of the 1,842,500 outstanding warrants as the exercise of these warrants would have an anti-dilutive effect on earnings per share. There were no anti-dilutive instruments outstanding for the three or nine months ended September 30, 2006.

## NOTE 2 - RECAPITALIZATION

On February 8, 2007 (the “recapitalization date”), we executed an Agreement and Plan of Merger (the “Merger Agreement”) by and between Amerasia Khan Enterprises Ltd. (a public shell), now known as ZAGG Incorporated, and its wholly-owned subsidiary, SZC Acquisition Inc., a Nevada corporation (“Subsidiary”) on the one hand and ShieldZone Corporation, (“ShieldZone”) a Utah corporation, on the other hand. Pursuant to the Merger Agreement, Subsidiary was merged into ShieldZone with ShieldZone surviving the merger. In consideration, the stockholders of ShieldZone received 10,175,000 shares of Amerasia Khan Enterprises Ltd., now known as ZAGG Incorporated, common stock which was approximately 69% of the total common shares outstanding just subsequent to the merger but before the simultaneous sale of 785,856 common shares for \$275,000 (\$0.35 per share) and conversion of a \$250,000 convertible promissory note for 714,286 common shares. The Company also issued warrants in conjunction with the sale of the 785,856 common shares and the raise and conversion of the \$250,000 convertible promissory note. The Company issued warrants as a fee to purchase 52,500 shares of our common stock at an exercise price of \$0.35. These warrants may be exercised until March 18, 2012, at which time they will expire if not exercised. The warrant holders also have piggyback registration rights. In connection with the merger/recapitalization, the Company is deemed to have issued 4,600,000 common shares to the original stockholders’ of Amerasia Khan Enterprises Ltd. Subsequent to the merger/recapitalization, 1,254,000 shares owned by certain original shareholders of Amerasia Khan Enterprises Ltd. were cancelled.

The merger was accounted for as a recapitalization of ShieldZone, a Utah corporation because on a post-merger basis, the former stockholders of ShieldZone Corporation held a majority of the outstanding common stock on a voting and fully-diluted basis and had Board and management control. As a result, ShieldZone is deemed to be the acquirer for accounting purposes. In March 2007, ShieldZone Corporation was merged into its parent, Amerasia Khan Enterprises Ltd., now known as ZAGG Incorporated, and the name of the surviving entity, Amerasia Khan Enterprises Ltd., was changed to ZAGG Incorporated.

Accordingly the balance sheets just subsequent to the recapitalization date consists of the balance sheets of both companies at historical cost and the statement of operations consists of the historical operations of ShieldZone and the operations of Amerasia Khan Enterprises Ltd., now known as ZAGG Incorporated, from the recapitalization date.

All share and per share data in the accompanying financial statements have been retroactively changed to reflect the effect of the merger and recapitalization.

**NOTE 3 - ACCOUNTS RECEIVABLE, NET**

Accounts Receivable at September 30, 2007 and December 31, 2006 was as follows:

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Accounts receivable	\$ 215,860	\$ 141,342
Less: Allowance for doubtful accounts	(20,193)	(20,193)
Accounts receivable, net	\$ 195,667	\$ 121,149

Bad debt expense for the nine months ended September 30, 2007 and 2006 was \$0 and \$0, respectively.

**NOTE 4 - INVENTORIES**

At September 30, 2007 and December 31, 2006 inventories consisted of the following:

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Finished Goods	\$ 180,855	\$ 67,257
Raw Materials	148,070	35,265
	\$ 328,925	\$ 102,522

**NOTE 5 - PROPERTY AND EQUIPMENT**

At September 30, 2007 and December 31, 2006, property and equipment consisted of the following:

	<b>Useful Lives</b>	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Computer equipment and software	3 to 5 years	\$ 95,865	\$ 58,790
Office equipment	3 to 7 years	102,518	58,407
Furniture and fixtures	7 years	42,575	9,405
Automobiles	5 years	47,063	47,063
Leasehold improvements	1 to 3.13 years	91,637	91,637
		379,658	265,302
Less Accumulated depreciation		(101,179)	(43,828)
		\$ 278,479	\$ 221,474

Depreciation expense was \$57,351 for the nine months ended September 30, 2007 and \$17,094 for the nine months ended September 30, 2006.



**NOTE 6 - INTANGIBLE ASSETS**

At September 30, 2007, intangible assets consist of legal fees paid in connection with the Company's patent application of \$7,935 and amounts paid to secure the Company's Internet addresses. The costs relating to the definite-lived intangible assets are amortized over their estimated useful lives using straight-line amortization. The useful life for Internet addresses is 10 years. As of September 30, 2007, the patent had not been granted. Accordingly, the Company has not begun to amortize the patent costs and will begin amortizing the patent over the legal life of the patent, when the patent is granted.

The Company has contractual rights customary in the industry to use its Internet addresses. However, the Company does not have and cannot acquire any property rights to the internet addresses. The Company does not expect to lose its rights to use the Internet addresses; however, there can be no assurance in this regard and such loss could have a material adverse effect on the Company's financial position and results of operations.

The Company's definite-lived intangible assets are summarized in the table below:

<b>September 30, 2007</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Internet addresses	\$ 43,169	\$ (1,079)	\$ 42,090

**NOTE 7 - STOCKHOLDERS' EQUITY**

During the nine months ended September 30, 2007, the Company issued 785,856 shares of its common stock in a private placement wherein the Company received \$275,050 and paid fees of \$47,250 and fee warrants to purchase 52,500 shares of the Company's common stock at a strike price of \$0.35; 714,286 shares of its common stock in conversion of a note payable with a face amount of \$250,000; 147,853 shares of its common stock in conversion of a notes payable in the amount of \$50,000; warrants to purchase 100,000 shares of the Company's common stock at a strike price of \$0.50 in connection with short-term financing; 1,975,000 shares of its common stock and warrants to purchase 987,500 shares of its common stock at a strike price of \$1.30 in a PIPE transaction wherein the Company received \$1,975,000 and paid fees of \$177,750 and fee warrants to purchase 197,500 shares of the Company's common stock at a strike price of \$1.30; 850,000 shares of its common stock and warrants to purchase 425,000 shares of its common stock at a strike price of \$1.30 in a private placement wherein the Company received \$850,000 and paid fees of \$76,500 and fee warrants to purchase 85,000 shares of the Company's common stock at a strike price of \$1.30; and 800,000 shares to employees and consultants valued at \$800,000 and recorded as compensation expense in the accompanying financial statements.

On November 13, 2007, the Board of Directors adopted the ZAGG Incorporated 2007 Stock Incentive Plan wherein the Company may issue an aggregate of 2,000,000 options to purchase shares of the Company's common stock or shares of the Company's common stock. There were no shares issued or options issued under the plan as of the date of this report.

**NOTE 8 - CONVERTIBLE NOTE PAYABLE - OFFICER**

In November 2006, the Company entered into a convertible note with an affiliate of the Company's Chief Executive Officer in the original principal amount of \$100,000. The note was convertible at the holder's option any time up to maturity at a conversion price equal to \$0.35 per common share. The note was due on May 15, 2007, bore interest at 20% per year and was unsecured. The common shares underlying the note have piggy back registration rights. In March 2007, the Company repaid \$50,000 of the principal balance of the note. In addition, the remaining \$50,000 of

principal plus accrued interest of \$1,749 was converted into 147,853 shares of the Company's common stock.

The note was a conventional convertible instrument and the Company evaluated the conversion feature and determined that there was not a separate derivative instrument associated with the note and no derivative liability was recognized. The Company determined that there was no beneficial conversion feature associated with the note as the conversion price was equal to the deemed market value on the date of grant.

#### **NOTE 9 - CONVERTIBLE NOTE PAYABLE**

On December 27, 2006, the Company entered into a Secured Convertible Note Purchase Agreement (the "Convertible Note Agreement"). Pursuant to the Convertible Note Agreement, the Company issued a convertible note to an unrelated investor in the original principal amount of \$250,000. The note was convertible at the holder's option any time up to maturity at a conversion price equal to \$0.35 per common share. The note was due on March 1, 2007, bore interest at 4% per year, and was secured by substantially all of the assets of the Company. Interest was payable at maturity and was computed on the basis of a 360-day year. In February 2007, the note holder converted the principal balance of the note into 714,286 shares of the Company's common stock.

The note was a conventional convertible instrument and the Company evaluated the conversion feature and determined that there was not a separate derivative instrument associated with the note and no derivative liability was recognized. The Company determined that there was no beneficial conversion feature associated with the note as the conversion price was equal to the deemed market value on the date of grant.

The weighted average interest rate for the two notes discussed above was 8.57%.

#### **NOTE 10 - NOTES PAYABLE**

On May 8, 2007, the Company entered into a promissory note agreement with an unrelated third party in the amount of \$200,000. The note bore interest at an annual percentage rate of 18% and was due and payable on August 15, 2007. The Company also issued 100,000 warrants with an exercise price of \$0.50. The warrants expire on May 30, 2012 and are exercisable any time at the option of the warrant holder. The Company recorded a discount on the note payable of \$15,031 as that was the value of the warrants as calculated using the Black-Scholes valuation model. The discount was amortized as additional interest expense in the accompanying statements. The note was paid in full on August 15, 2007.

#### **NOTE 11 - COMMITMENTS AND CONTINGENCIES**

From time to time we may become subject to proceedings, lawsuits and other claims in the ordinary course of business, including proceedings related to environmental and other matters. Such matters are subject to many uncertainties, and outcomes are not predictable with assurance.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Forward-Looking Statements

*Certain statements, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives, and expected operating results, and the assumptions upon which those statements are based, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words “believes,” “project,” “expects,” “anticipates,” “estimates,” “intends,” “strategy,” “plan,” “may,” “will,” “would,” “will be,” “will continue,” “will likely result,” and ~~similar~~ expressions. We intend such forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for purposes of complying with those safe-harbor provisions. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors which could have a material adverse affect on our operations and future prospects include, but are not limited to: changes in economic conditions, legislative/regulatory changes, availability of capital, interest rates, competition, and generally accepted accounting principles. These risks and uncertainties should also be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Further information concerning our business, including additional factors that could materially affect our financial results, is included herein and in our other filings with the SEC.*

### Overview

#### Recent Merger Transactions

On February 8, 2007, Amerasia Khan Enterprises Ltd. (“AKE”) a Nevada corporation (the “Registrant”) (nka ZAGG Incorporated) executed an Agreement and Plan of Merger (the “Merger Agreement”) by and between the Registrant and its wholly owned subsidiary, SZC Acquisition, Inc., a Nevada corporation (“Subsidiary”) on the one hand and ShieldZone Corporation, a Utah corporation (“ShieldZone” or “Target”) on the other hand. Pursuant to the Merger Agreement, ShieldZone merged with Subsidiary, with ShieldZone surviving the merger and Subsidiary ceasing to exist (the “Merger”).

Following the Merger, ShieldZone was reincorporated in Nevada as a subsidiary of AKE. On March 7, 2007, ShieldZone was merged up and into AKE. At that time AKE changed its name to ZAGG Incorporated, and the operations of the surviving entity (ZAGG Incorporated) are solely that of ShieldZone. As a result of these transactions, the historical financial statements of ZAGG Incorporated are the historical financial statements of ShieldZone. The fiscal year end of the Company is December 31.

For purposes of the following discussion and analysis, references to “we”, “our”, “us” refers to ZAGG Incorporated.

### Our Business

We custom-design, market and sell a form of protective covering for consumer electronic and hand held devices. Our key product “invisibleSHIELD”™ is made from a protective, film-like covering that was developed originally to protect the leading edges of rotary blades of military helicopters. We determined that this same film product could be configured to fit onto the surface of electronic devices and marketed to consumers for use in protecting such devices

from everyday wear and tear including scratches, scrapes, debris and other surface blemishes. The film also permits touch sensitivity, meaning it can be used on devices that have a touch-screen interface. The *invisibleSHIELD* film material is highly reliable and durable since it was originally developed for use in a high friction, high velocity, aerospace context. The film provides long lasting protection for the surface of electronic devices subject to normal wear and tear. The film is a form of polyurethane substance, akin to a very thin, pliable, flexible and durable clear plastic that adheres to the surface and shape of the object it is applied to.

### ***Critical Accounting Policies***

The discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Significant estimates include the allowance for doubtful accounts, inventory valuation allowances, sales returns and warranty liability, the useful life of property and equipment and the valuation allowance on deferred tax assets.

### ***Revenue recognition***

We follow the guidance of the Securities and Exchange Commission's Staff Accounting Bulletin 104 for revenue recognition. In general, we record revenue when persuasive evidence of an arrangement exists or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured. Our revenue is derived from sales of our products to retailers, resellers and end consumers and from the sale of distributor license fees. For sales of product, we record revenue when the product is shipped, net of estimated returns and discounts. For license fees, we recognize revenue on a prorated basis over the life of the distribution contract.

The Company follows the guidance of Emerging Issues Task Force (EITF) Issue 01-9 "Accounting for Consideration Given by a Vendor to a Customer" and (EITF) Issue 02-16 "Accounting by a Customer (Including a Reseller) for Certain Considerations Received from Vendors." Accordingly, any incentives received from vendors are recognized as a reduction of the cost of products. Promotional products given to customers or potential customers are recognized as a cost of sales. Cash incentives provided to our customers are recognized as a reduction of the related sale price, and, therefore, are a reduction in sales.

### ***Reserve for Sales Returns and Warranty Liability***

Our return policy generally allows our end users and retailers to return purchased products for refund or in exchange for new products within 30 days of end user purchase. We estimate a reserve for sales returns and record that reserve amount as a reduction of sales and as a sales return reserve liability.

We generally provide the ultimate consumer a warranty with each product and accrue warranty expense at the time of the sale based on our prior claims history. Actual warranty costs incurred are charged against the accrual when paid.

### ***Recently Issued Accounting Pronouncements***

In February, 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). This Statement provides companies with an option to report selected measurement attributes for different assets and liabilities that can create artificial volatility in earnings. The Statement's objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS No. 159 is effective for us beginning January 1, 2009. We are currently evaluating the impact of this standard.

We have reviewed all other recently issued, but not yet adopted, accounting standards in order to determine their effects, if any, on our results of operation, financial position or cash flows. Based on that review, we believe that none of these pronouncements will have a significant material effect on our current or future earnings or operations.



## Results of Operations

### THREE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

#### *Net sales*

Net sales for the quarter ended September 30, 2007 were \$1,437,408 as compared to net sales of \$816,022 for the quarter ended September 30, 2006, an increase of \$621,386 or 76%.

The significant increase in product sales is mainly attributed to continued strong sales of our *invisibleSHIELD* product line with approximately 68% of our product being sold through our website to retail customers, 16% being sold through mall carts, 10% to wholesale distributors and 6% from shipping and handling charges.

#### *Cost of sales*

Cost of sales includes raw materials, packing materials and shipping costs. For the quarter ended September 30, 2007, cost of sales amounted to \$299,027 or approximately 21% of net sales as compared to cost of sales of \$193,153 or 23% of net sales for quarter ended September 30, 2006. The decrease in cost of sales as a percentage of net revenues for the quarter ended September 30, 2007 as compared to the quarter ended September 30, 2006 is attributable to better overall pricing on raw materials purchases, decreased shipping rates and decreased packaging costs.

#### *Gross profit*

Gross profit for the quarter ended September 30, 2007 was \$1,138,381 or approximately 79% of net sales as compared to \$622,869 or approximately 76% of net sales for the quarter ended September 30, 2006. The increase in gross profit percentage was attributable to decreased costs associated with raw materials, packaging and shipping and changes in sales mix from distributor sales to internet and cart sales. There are no assurances that we will continue to recognize similar gross profit margin in the future.

#### *Operating expenses*

Total operating expenses for the quarter ended September 30, 2007 were \$1,888,346, an increase of \$1,299,733 from total operating expenses for the quarter ended September 30, 2006 of \$588,613. The increases are primarily attributable to the following:

- For the quarter ended September 30, 2007, we recognized \$800,000 in expense related to the issuance of restricted stock to employees and key consultants of the Company. Exclusive of this non-cash charge, total operating expenses were \$1,088,346 and income from operations was \$50,035.
- For the quarter ended September 30, 2007, salaries and related taxes increased by \$187,532 to \$451,076 from \$263,544 for the quarter ended September 30, 2006 due to the hiring of some key management personnel and additional staff to facilitate our continued growth and development of our overall business plan and marketing strategy.
- For the quarter ended September 30, 2007, marketing and advertising expenses were \$227,624, an increase of \$119,236 as compared to \$108,388 for the quarter ended September 30, 2006. As a percentage of sales, the increase was only 2.6% from 13.3% of sales for the quarter ended September 30, 2006 to 15.8% of sales for the quarter ended September 30, 2007. This increase is attributable to an increase in our marketing efforts as we roll out product and implement our business plan. The primary marketing expenditures continue to be in web advertising and search

engine optimization. We expect our marketing and advertising expenses to increase as our revenues increase and expect to spend increased funds on adverting and promotion of our products as well as sales training. We also spent approximately \$51,000 on television advertising for the *invisible*SHIELD product line.



For the quarter ended September 30, 2007, other selling, general and administrative expenses were \$383,851 as compared to \$186,631 for the quarter ended September 30, 2006, an increase of \$197,220. The increase was attributable to the increase in operations as we continue to implement our business plan and is summarized below:

	<b>Three Months Ended September 30, 2007</b>	<b>Three Months Ended September 30, 2006</b>
Contract labor	\$ 80,421	\$ 33,159
Rent	59,547	9,211
Investor relations	48,185	--
Credit Card and bank fees	37,434	12,591
Travel and entertainment	29,518	27,297
Insurance	24,327	14,380
Depreciation and amortization	21,455	15,344
Telephone and utilities	20,586	13,919
Office supplies	17,636	7,699
Printing expenses	12,068	6,566
Other	32,674	46,465
Total	\$ 383,851	\$ 186,631

***(Loss) income from operations***

We reported loss from operations of (\$749,965) for the quarter ended September 30, 2007 as compared to income from operations of \$34,256 for the quarter ended September 30, 2006, a decrease of \$784,221. Net of the non-cash charge related to the issuance of stock to employees and key consultants of \$800,000, we had income from operations of \$50,035. The loss from operations for the quarter ended September 30, 2007 as compared to income from operations the quarter ended September 30, 2006 is primarily attributable to \$800,000 in expenses related to the issuance of restricted stock to employees and key consultants of the Company and, in addition, overall cost increases associated with executing our business plan including increased salaries and related taxes of \$187,532, increased advertising and marketing expenditures of \$119,236, increased contract labor expense of \$47,262, investor relations related expenses of \$48,185, increased insurance expenses of \$9,947, increased office supplies expenses of \$9,937, increased telephone and utilities expenses of \$6,667 increased rent expense of \$50,336 and increased travel and entertainment expense of \$2,221.

***Other income (expense)***

For the quarter ended September 30, 2007, total other income was \$16,771 compared to other expense of (\$18,700) for the quarter ended September 30, 2006. The increase is primarily attributed to interest income of \$20,903 related to interest earned on cash balances in our depository accounts and a decrease in other expense of \$14,568 in the quarter ended September 30, 2006, partially offset by interest expense of (\$4,132).

***Net (loss) income***

As a result of these factors, we reported a net loss of (\$733,428) or (\$0.04) per share for the quarter ended September 30, 2007 as compared to net income of \$15,556 or \$0.00 per share for the quarter ended September 30, 2006.

## **NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006**

### ***Net sales***

Net sales for the nine months ended September 30, 2007 were \$3,034,714 as compared to net sales of \$1,978,533 for the nine months ended September 30, 2006, an increase of \$1,056,181 or 53%.

The significant increase in product sales is mainly attributed to continued strong sales of our *invisibleSHIELD* product with approximately 63% of our product being sold through our website to retail customers, 19% being sold through mall carts, 12% to wholesale distributors and 6% from shipping and handling charges.

### ***Cost of sales***

Cost of sales includes raw materials, packing materials and shipping costs. For the nine months ended September 30, 2007, cost of sales amounted to \$689,858 or approximately 23% of net sales as compared to cost of sales of \$537,375 or 27% of net sales for nine months ended September 30, 2006. The decrease in cost of sales as a percentage of net revenues for the quarter ended September 30, 2007 as compared to the quarter ended September 30, 2006 is attributable to better overall pricing on shipping and raw materials purchases and decreased packaging costs.

### ***Gross profit***

Gross profit for the nine months ended September 30, 2007 was \$2,344,856 or approximately 77% of net sales as compared to \$1,441,158 or approximately 73% of net sales for the nine months ended September 30, 2006. The increase in gross profit percentage was attributable to decreased costs associated with shipping, raw materials and packaging and changes in sales mix from distributor sales to retail and cart sales. There are no assurances that we will continue to recognize similar gross profit margin in the future.

### ***Operating expenses***

Total operating expenses for the nine months ended September 30, 2007 were \$3,389,362, an increase of \$1,963,197 from total operating expenses for the nine months ended September 30, 2006 of \$1,426,165. The increases are primarily attributable to the following:

- For the nine months ended September 30, 2007, we recognized \$800,000 in expense related to the issuance of restricted stock to employees and key consultants of the Company. Exclusive of this non-cash charge, total operating expenses were \$2,589,362 and the loss from operations was (\$244,506).
- For the nine months ended September 30, 2007, salaries and related taxes increased by \$435,624 to \$1,105,519 from \$669,895 for the nine months ended September 30, 2006 due to the hiring of key management personnel and additional staff to facilitate our continued growth and development of our overall business plan and marketing strategy.
- For the nine months ended September 30, 2007, consulting expense was \$38,500, a decrease of \$35,250 from the expense recognized for the nine months ended September 30, 2006 of \$73,750. The decrease is primarily due to approximately \$63,000 that was paid to a consultant who then became our president in 2006, partially offset by expenses incurred related to the hiring of key personnel during the nine months ended September 30, 2007 of \$24,000 and payments to a consulting firm for website optimization of \$10,000.

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For the nine months ended September 30, 2007, legal and accounting expenses were \$248,240, an increase of \$213,303 as compared to \$34,937 for the nine months ended September 30, 2006. The overall increase is attributable to the reverse merger that we effectuated in February 2007.

- For the nine months ended September 30, 2007, marketing and advertising expenses were \$467,410, an increase of \$197,721 as compared to \$269,689 for the nine months ended September 30, 2006. This increase is attributable to an increase in our marketing efforts as we roll out product and implement our business plan. The primary marketing expenditures continue to be in web advertising and search engine optimization. We also spent approximately \$79,000 on television advertising and \$19,000 for the nine months ended September 30, 2007 to redesign our consumer packaging. We expect our marketing and advertising expenses to increase as our revenues increase and expect to spend increased funds on advertising and promotion of our products as well as sales training.
- For the nine months ended September 30, 2007, other selling, general and administrative expenses were \$729,963 as compared to \$377,894 for the nine months ended September 30, 2006. The increase was attributable to the increase in operations as we implement our business plan and is summarized below:

	<b>Nine Months Ended September 30, 2007</b>	<b>Nine Months Ended September 30, 2006</b>
Contract labor	\$ 120,650	\$ 40,960
Rent	114,538	32,053
Credit Card and bank fees	73,447	36,034
Travel and entertainment	68,565	42,459
Depreciation and amortization	58,430	17,094
Investor relations	52,584	--
Insurance	52,536	24,673
Telephone and utilities	44,893	30,011
Office supplies	41,776	33,183
Printing expenses	31,719	24,091
Other	70,555	97,336
Total	\$ 729,963	\$ 377,894

***(Loss) income from operations***

We reported loss from operations of (\$1,044,506) for the nine months ended September 30, 2007 as compared to income from operations of \$14,993 for the nine months ended September 30, 2006, a decrease of \$1,059,499. Net of the non-cash charge related to the issuance of stock to employees and key consultants of \$800,000, we had an operating loss of (\$244,506). The loss from operations for the nine months ended September 30, 2007 as compared to income from operations the nine months ended September 30, 2006 is primarily attributable to \$800,000 in expenses related to the issuance of restricted stock to employees and key consultants of the Company and increased salaries and related expenses of \$435,624, increased legal and accounting fees of \$213,303 due to the recapitalization transaction, increased advertising and marketing expenses of \$197,721, increased rent expense of \$82,485, increased credit card and bank fees of \$37,413, increased travel and entertainment expense of \$26,106, increased depreciation and amortization expense of \$41,336, investor relations related expenses of \$52,584, increased insurance expenses of \$27,863 and increased telephone and utilities expenses of \$14,882.

***Other income (expense)***

For the nine months ended September 30, 2007, total other expense was (\$5,243) compared to other expense of (\$11,740) for the nine months ended September 30, 2006. The decrease is primarily attributed to interest income of \$24,988 for the nine months ended September 30, 2007 compared to interest in come of \$6,819 for the nine months ended September 30, 2006 due to increased cash balances in our depository accounts. These decreases were partially

offset by interest expense of (\$30,231) for the nine months ended September 30, 2007 compared to other expense of (\$18,559) for the nine months ended September 30, 2006 due to interest expense related to short-term borrowings during the first and second quarters of 2007.

### *Net (loss) income*

As a result of these factors, we reported a net loss of (\$1,052,293) or (\$0.07) per share for the nine months ended September 30, 2007 as compared to a net income of \$16,717 or \$0.00 per share for the nine months ended September 30, 2006.

### **Liquidity and Capital Resources**

Liquidity is the ability of a company to generate funds to support its current and future operations, satisfy its liabilities and otherwise operate on an ongoing basis.

At September 30, 2007, we had a cash balance of \$2,146,753.

Our working capital position increased by \$2,680,584 to working capital of \$2,601,111 at September 30, 2007 from a working capital deficit of (\$79,473) at December 31, 2006. This increase in working capital is primarily attributable to the overall increased current assets including cash of \$1,678,371, prepaid expenses of \$152,186, increased prepaid advertising of \$205,782, increased inventories of \$226,403, increased accounts receivable of \$74,518 and decreased convertible notes payable of \$350,000, decreased accrued liabilities of \$16,981 and decreased deferred sales return liability of \$15,401, partially offset by increased accounts payable of \$69,968 and increased deferred revenues of \$8,152.

Net cash used in operating activities for the nine months ended September 30, 2007 was (\$857,059) as compared to cash provided by operating activities of \$217,032 for the nine months ended September 30, 2006. For the nine months ended September 30, 2007, net cash used in operating activities was attributable primarily to our net loss of (\$1,052,293), increased inventories of \$226,403, increased prepaid advertising of \$205,782, increased prepaid expenses and other current assets of \$111,805, increased accounts receivable of \$74,518, decreased accrued wages and wage related expenses of \$48,766, increased other assets of \$18,593, decreased sales returns liability of \$15,401 and decreased accrued liabilities of \$1,288, partially offset by non-cash expense related to issuance of stock to employees of \$800,000, depreciation and amortization of \$58,430, increased accounts payable of \$21,280 and increased deferred licensing revenues of \$8,152.

Net cash used in investing activities for the nine months ended September 30, 2007 was (\$163,120) attributable to the purchase of property and equipment of \$114,356 and payments for intangible assets of \$48,764.

Net cash provided by financing activities was \$2,698,550 for the nine months ended September 30, 2007. Net cash provided by financing activities for the nine months ended September 30, 2007 was attributable to the net proceeds received from financing transactions of \$2,570,750, net proceeds from the sale of common stock of \$227,800 and proceeds from notes payable of \$200,000, partially offset by repayments of convertible debt - officer of \$50,000 and repayment of notes payable of \$250,000.

We reported a net increase in cash for the nine months ended September 30, 2007 of \$1,678,371.

On July 10, 2007, we completed a private placement offering wherein we raised \$1,975,000 less fees of \$177,750. We issued 1,975,000 shares of our common stock and 987,500 warrants to purchase our common stock at an exercise price of \$1.30 per share. These warrants are exercisable at the warrant holder's option any time up through July 10, 2012. On August 7, 2007, we completed a private placement offering wherein we raised \$850,000 less fees of \$76,500. We issued 850,000 shares of our common stock and 425,000 warrants to purchase our common stock at an exercise price of \$1.30 per share. These warrants are exercisable at the warrant holder's option at any time up through August 7, 2012.

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For the three months ended September 30, 2007 and 2006, we generated revenues of \$1,437,408 and \$816,022, respectively and incurred a net to loss of (\$733,428) and net income of \$15,556, respectively. For the nine months ended September 30, 2007 and 2006, we generated revenues of \$3,034,714 and \$1,978,533, respectively, and incurred a net loss of (\$1,052,293) and net income of \$16,717, respectively, had negative cash flow from operating activities of (\$859,059) for the nine months ended September 30, 2007 and positive cash flow from operating activities of \$217,032 for the nine months ended September 30, 2006. As of September 30, 2007, we had stockholders' equity of \$2,947,962, an accumulated deficit of (\$1,034,786), working capital of \$2,601,111, accounts payable of \$316,659, deferred licensing revenue of \$94,953, accrued wages and wage related expenses of \$72,962, sales returns liability of \$16,599 and accrued liabilities of \$16,592. Management believes that existing cash, along with cash generated from the collection of accounts receivable and the sale of products will be sufficient to meet the Company's cash requirements during the next twelve months.

## **Off Balance Sheet Arrangements**

As of September 30, 2007, there were no off balance sheet arrangements.

## **Item 3. Controls and Procedures**

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of September 30, 2007. This evaluation was carried out under the supervision and with the participation of our Chief Executive Officer, Mr. Robert G. Pedersen II, and Chief Financial Officer, Mr. Brandon T. O'Brien. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2007, our disclosure controls and procedures are effective. There have been no changes in our internal controls over financial reporting during the quarter ended September 30, 2007.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act are recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

### Limitations on the Effectiveness of Internal Controls

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will necessarily prevent all fraud and material error. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving our objectives and our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective at that reasonable assurance level. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the internal control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.



## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

The Company is not presently party to any legal proceedings. We are not aware of any pending legal proceeding to which any of our officers, directors, or any beneficial holders of 5% or more of our voting securities are adverse to us or have a material interest adverse to us.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

#### **Unregistered Sales of Equity Securities**

We have sold or issued the following securities not registered under the Securities Act by reason of the exemption afforded under Section 4(2) of the Securities Act of 1933 (the "Act"), during the last three years. Except as stated below, no underwriting discounts or commissions were payable with respect to any of the following transactions. The offer and sale of the following securities was exempt from the registration requirements of the Securities Act under Rule 506 insofar as (1) except as stated below, each of the investors was accredited within the meaning of Rule 501(a); (2) the transfer of the securities were restricted by the company in accordance with Rule 502(d); (3) there were no more than 35 non-accredited investors in any transaction within the meaning of Rule 506(b), after taking into consideration all prior investors under Section 4(2) of the Securities Act within the twelve months preceding the transaction; and (4) none of the offers and sales were effected through any general solicitation or general advertising within the meaning of Rule 502(c).

At March 24, 2005 (inception), ShieldZone issued 10,000,000 shares of common stock to its founder for \$1,000.

ShieldZone entered into a distribution agreement with a distributor (the "Distributor") in March 2006. On December 12, 2006, under a settlement type purchase agreement the Company agreed to issue to the Distributor 75,000 of its common shares, \$13,000 cash plus portion of payment due from a customer for which the Distributor was the Company's distributor in order to early cancel the distribution agreement. The shares were valued and expensed at \$26,250 or \$0.35 per share which was a contemporaneous sale price in a private transaction where a former officer sold a portion of his common shares of the Company.

In July 2006, ShieldZone sold 100,000 common shares for \$75,000 or \$0.75 per share. The shares were issued pursuant to an exemption from registration provided by Rule 506 of Regulation D, as they were issued without any form of general solicitation or general advertising and the purchaser qualified as an accredited investor and accepted the shares for his personal account and not with a view towards distribution.

On December 27, 2006, ShieldZone issued a Secured Convertible Promissory Note in the principal amount of \$250,000 to an accredited investor. The Note is convertible into shares of the Company's common stock at a conversion price per share of \$0.35. The Note was issued pursuant to an exemption from registration provided by Rule 506 of Regulation D, as it was issued without any form of general solicitation or general advertising and the purchaser qualified as an accredited investor and accepted the Note and underlying shares for its personal account and not with a view towards distribution. The holders of the note converted the outstanding principal balance into 714,286 shares of the Company's common stock on February 8, 2007. These shares have piggyback registration rights.

Empire Financial Group ("Empire") acted as placement agent with respect to the offering and Empire or its designees will receive a cash fee equal to \$47,250 and warrants to purchase 52,500 shares of the Company's common stock at an exercise price of \$0.35 per share. The warrant shares are subject to equitable adjustment for stock splits, stock dividends and similar events, and have "piggyback" registration rights.

On February 8, 2007, the Company issued and sold 785,856 shares of Common Stock to accredited investors. The shares were sold at a price per share of \$0.35. These shares have piggy back registration rights. The shares were issued pursuant to an exemption from registration provided by Rule 506 of Regulation D, as they were issued without any form of general solicitation or general advertising and the purchases qualified as accredited investors and accepted the shares for their personal accounts and not with a view towards distribution.

On February 8, 2007, the Company and Amerasia Khan Enterprises Ltd. a Nevada corporation (“AKE”) (nka Zagg Incorporated), a publicly held entity, executed an Agreement and Plan of Merger (the “Merger Agreement”) by and between AKE and its wholly owned subsidiary, SZC Acquisition Corp., a Nevada corporation (“Subsidiary”) on the one hand and ShieldZone Corporation, a Utah corporation on the other hand. Pursuant to the Merger Agreement ShieldZone merged with the Subsidiary, with ShieldZone Corporation surviving the merger (the “Merger”). In consideration, the shareholders of ShieldZone were issued 10,175,000 shares of the common stock of AKE. Shareholders holding 3,941,765 of these shares claim to have piggyback registration rights in AKE. The issuance of the shares in connection with the Merger was made pursuant to an exemption form registration provided by Rule 506 of Regulation D, as they were issued without any form of general solicitation or general advertising and the purchasers qualified as accredited investors and accepted the shares for their personal accounts and not with a view towards distribution.

During the quarter ended March 31, 2007, the Company repaid \$50,000 of the principal balance of a \$100,000 note issued in November 2006 to an affiliate of the Company’s Chief Executive Officer, and the remaining \$50,000 of principal plus accrued interest of \$1,749 was converted into 147,853 shares of Common Stock. These shares have piggy back registration rights. The shares were issued pursuant to an exemption form registration provided by Rule 506 of Regulation D, as they were issued without any form of general solicitation or general advertising and the purchases qualified as accredited investors and accepted the shares for their personal accounts and not with a view towards distribution.

On July 10, 2007, the Company sold (i) 1,975,000 shares of our common stock, and (ii) five-year warrants to purchase 987,500 shares of common stock at an exercise price of \$1.30 per share, pursuant to a Securities Purchase Agreement among our company and certain institutional investors (the “Purchasers”) signatory thereto. We received aggregate gross proceeds of approximately \$1,975,000 from the sale of the common stock and warrants. The common stock and warrants were offered solely to “accredited investors” in reliance on the exemption from registration afforded by Section 4(2) of the Securities Act of 1933, as amended, and/or Rule 506 of Regulation D promulgated thereunder.

Under the applicable agreements, the Purchasers are entitled to certain contractual benefits, which are summarized as follows:

1. The right to participate in any subsequent financing of the Company in the next twelve months;
2. Except for certain exempt issuances, restrictions on the Company’s ability to offer securities in the next 90 days and beyond in certain circumstances;
3. For as long as any Purchaser holds Company securities, restrictions on the Company’s ability to issue securities that are convertible into common stock at some future or variable price;
4. For twelve months, restrictions on the Company’s ability to undertake a reverse or forward stock split of its common stock;
5. For two years and except for certain exempt issuances, the right to certain anti-dilution provisions;
6. The right to rescind in the event the Company fails to meet certain deadlines.

Empire Financial Group (“Empire”) acted as placement agent with respect to the offering and received a cash fee equal to \$177,750 and warrants to purchase 197,500 shares of the Company’s common stock at an exercise price of \$1.30 per share.

Pursuant to a Registration Rights Agreement, the Company agreed to file an initial registration statement covering the resale of the common stock and the shares of common stock underlying the warrants no later than 30 days from the closing of the offering and to have such registration statement declared effective no later than 120 days from the closing of the offering. If the Company does not timely file the registration statement or cause it to be declared effective by the required dates, then each investor in the offering shall be entitled to liquidated damages equal to 2% of the aggregate purchase price paid by such investor for the securities, and an additional 2% for each month that the Company does not file the registration statement or cause it to be declared effective. The Company is also subject to the same penalties for failure to perform the following acts in their respective timeframes:

1. File with the Securities and Exchange Commission (the "Commission") a pre-effective amendment within ten trading days after the receipt of comments from the Commission;
2. File with the Commission a request for acceleration with five trading days of the date the Commission notifies the Company orally or in writing that the registration statement will not be reviewed or subject to further review;
3. Fail to notify the Purchasers within one trading day of when the Company requests effectiveness of the registration statement;
4. Fail to file a final prospectus within one trading day after effectiveness;
5. Fail to maintain an effective registration statement for more than ten consecutive calendar days or more than an aggregate of fifteen calendar days in a twelve month period; and
6. Fail to register all of the common stock and the shares of common stock underlying the warrants pursuant to one or more registration statements on or before December 28, 2007.

On July 24, 2005, the Company issued 800,000 shares of common stock to employees and affiliates under its Stock Option and Stock Grant plan.

On August 7, 2007, the Company (i) 850,000 shares of our common stock, and (ii) five-year warrants to purchase 425,000 shares of common stock at an exercise price of \$1.30 per share, pursuant to a Securities Purchase Agreement among our company and certain institutional investors (the "Purchasers") signatory thereto. We received aggregate gross proceeds of approximately \$850,000 from the sale of the common stock and warrants. The common stock and warrants were offered solely to "accredited investors" in reliance on the exemption from registration afforded by Section 4(2) of the Securities Act of 1933, as amended, and/or Rule 506 of Regulation D promulgated thereunder.

Empire Financial Group ("Empire") acted as placement agent with respect to the offering and received a cash fee equal to \$76,500 and warrants to purchase 85,000 shares of the Company's common stock at an exercise price of \$1.30 per share.

**Use of Proceeds**

On August 30, 2007, the registration statement filed on Form SB -2 (Commission file number 333-145299) was declared effective by the SEC. This offering has commenced and is ongoing. This registration statement registered 3,998,356 shares of our common stock on behalf of certain selling shareholders of the Company. We will not receive any proceeds from this offering and have not made any arrangements for the sale of these securities.

On October 16, 2007, the registration statement filed on Form SB-2 (Commission file number 333-146320) was declared effective by the SEC. This offering has commenced and is ongoing. This registration statement registered 6,263,904 shares of our common stock on behalf of certain selling shareholders of the Company. We will not receive any proceeds from this offering and have not made any arrangements for the sale of these securities.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Submission of Matters to a Vote of Security Holders**

No matters have been submitted to our security holders for a vote, through the solicitation of proxies or otherwise, during the nine months ended September 30, 2007.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

a. Exhibits: The following Exhibits are filed with this Form 10-QSB pursuant to Item 601(a) of Regulation S-K:

Exhibit No.	Description of Exhibit
10.1	ZAGG Incorporated 2007 Stock Incentive Plan
31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**ZAGG INCORPORATED**

Date: November 14, 2007

By: **/s/ ROBERT G. PEDERSEN II**

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Robert G. Pedersen II,  
President and Chief Executive Officer

Date: November 14, 2007

By: **/s/ BRANDON T. O'BRIEN**

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Brandon T. O'Brien,  
Chief Financial Officer  
(Principal Financial Officer)

